THE CORPORATE COUNCIL ON
AFRICA

Promoting trade and investment between the United States and Africa

"AGOA: A Five-Year Assessment"

Testimony by

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to

The United States House Committee on International Relations'
Subcommittee on Africa, Global Human Rights, and International
Operations

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Mr. Chairman,

Distinguished Members of the Committee,

Distinguished Guests:

Introduction

It is an honor to be with you today to discuss the progression of the African Growth and Opportunity Act and to share my views on its future. As President of the Corporate Council on Africa, I look forward to sharing some U.S. private sector perspectives on the best ways to use AGOA to help grow and extend the U.S.–Africa trade relationship.

AGOA is a critical to growing and improving the United States' trade relationship with Africa. To date, AGOA and the Millennium Challenge Account (MCA) are the two most important acts ever passed and signed into law on behalf of our relationship with the nations of Africa. African countries realize the tremendous opportunities presented by AGOA and are working to seek ways to use AGOA to grow their trade with the U.S. Over the course of the past five years, AGOA has presented real opportunities for both United States and African businesses. Total AGOA imports were US$ 26.6 billion in 2004, representing an 88 percent increase from the year before. Excluding petroleum and related products, AGOA imports were valued at US$ 3.5 billion in 2004, representing a 22 percent increase from 2003. This increase is both significant and praiseworthy.

It is remarkable that so much has been accomplished over such a short period of time; however, AGOA alone with its market-based approach will not be sufficient to address the economic problems faced by a number of African countries. But AGOA is not a panacea. The continent's divergent needs demand a multi-faceted approach to development. Without adequate infrastructure development, improved social services delivery, skills capacity building, private sector development, and governance reforms, African countries will continue to lag behind in the global economy. CCA believes that the MCA, now getting underway, will complement AGOA in addressing many of these needs.

It should be clear that any concerns about the full effectiveness of AGOA are in no way a criticism of any U.S. administration nor of the original crafters of the legislation who worked tirelessly to enact legislation to improve U.S.–Africa trade. It is to the lawmakers' credit that we are able to account for AGOA's successes today. It is, and will remain pivotal to addressing Africa's greater challenges; however, we must honestly examine why AGOA has not been effective for all eligible countries and assess what can be done to improve the impact of the law and enhance Africa's trade opportunities with the United States. To do so we must be as realistic about the challenges to AGOA as some have about the legislation's successes.

Overview of Key AGOA Challenges

Textile and Apparel Industry

Despite AGOA and improvements to it, the scope and diversity of the products exported to the U.S. remains limited. The export benefits of AGOA have made apparel investment one of the fastest growing sectors. Unfortunately, the advantage that countries have acquired in apparel production by becoming AGOA eligible is largely disappearing with the January 1, 2005 expiration of the Multi-fiber Agreement (MFA).

The MFA (also known as the Agreement on Textiles and Clothing) , which governs textiles and apparel imports to the United States and the European Union through a system of quotas, limited imports to countries where domestic textile and apparel industries were facing serious damage from rapidly growing foreign imports. With the expiration of the MFA, apparel producing states now face stronger competition from large-scale apparel exporting states such as China and India. At the same time, cheap Chinese exports to Africa are also damaging local apparel production.

The positive impact of this new challenge is that it has led both U.S. and African stakeholders back to the drawing board to consider and derive export strategies for eligible African countries which focus on diversification, technical assistance training, more effective exploitation of comparative advantages, and the growth of niche market sectors.

The Office of the United States Trade Representative issued the July 2005 *African Growth and Opportunity Act Competitiveness Report* in part to help to address the challenges to AGOA brought about by the expiration of the MFA. The report is commendable in that it provides a country by country analysis of the sectors that possess the greatest potential for export growth, identifies domestic and international barriers to growth in the targeted sectors, and makes recommendations on how the U.S. government and the private sector can provide technical assistance to assist in dismantling such barriers and promote investment into these sectors.

Trade and Investment Promotion

CCA believes that in order for AGOA to remain relevant and to continue to drive export–oriented growth in the post–MFA context, there needs to be a concerted push to promote U.S. private sector investment in Africa. U.S. investment has not reached levels that were generally anticipated in 2000. This is in part due to the challenge posed by Africa's negative perception as well as to the reality of poor conditions for doing business in number of African countries. Neither the U.S. nor the countries of Africa will benefit from AGOA to the extent possible until we address these conditions.

CCA's experiences are testament to the significant hurdles that must be overcome if we are to convince U.S. businesses to invest in Africa. In the run-up to the Corporate Council on Africa's 2005 U.S.–Africa Business Summit, CCA sent staff to 28 cities across the United States to promote both the Summit and Africa's innumerable trade and investment opportunities. Our experience has taught us that beyond the Washington, DC, Baltimore, and New York region, there exists little awareness of the opportunities for U.S. business engagement with Africa. This presents a challenge to my own organization's mission of promoting U.S. private sector engagement in Africa and to the United States government mandate of promoting U.S. trade with Africa through AGOA. Compounding this problem, few if any institutions in the governmental or private sector have adequately promoted AGOA as an investment tool in Africa for U.S. businesses. Collectively, we need to work to spread the message and value of AGOA to our own economy.

Improving Investment Climate

In order to meaningfully address AGOA's challenges it is necessary to segment our analysis of this growth. Ten AGOA eligible countries (or 27 percent of all eligible countries) had AGOA exports of less than US$ 1 million in 2004, namely Benin (US$ 215, 000), The

Gambia (US$ 21,000), Guinea (US$ 89,000), Mali (US$ 202,000), Niger (US$ 72,000), Sao Tome and Principe (US$ 86,000), Senegal (US$ 518,000), Sierra Leone (US$ 351, 000), Djibouti (US$ 63, 000), Rwanda (US$ 67,000), and Seychelles (US$ 3,000) and are yet to take full advantage of AGOA benefits.

The apparel export successes of eight countries (or 22 percent of all eligible countries) namely Kenya (US$ 287 million), Tanzania (US$ 3.6 million), Botswana (US$ 20 million), Lesotho (US$ 448 million), Madagascar (US$ 317 million), Malawi (US$ 64 million), Mauritius (US$ 161 million), Namibia (US$ 161 million), and Swaziland (US$ 177 million) is threatened by growing Asian competition. It is therefore no surprise that collectively, these eighteen countries have been the most active in trying to reach out to the U.S. private and public sector communities over the course of the current year.

Summary AGOA growth assessment:

- SSA exports to the U.S. under AGOA plus GSP, have grown by 72 percent over the past three years to US$ 26.6 billion in 2004
- Energy and related products exports represent the majority of AGOA growth, expanding by 84 percent from 2002-2004 to US$23 billion
- Non-oil AGOA export growth is more moderate at 27.2 percent over the period 2002-2004, reaching US$3.5 billion in 2004
- Diversification is a major challenge, with the majority of AGOA export growth centered in resource-extractive industries and apparel
- African countries need assistance to help grow AGOA agriculture products exports to the U.S.
- There has been little diversified U.S. investment into African manufacturing sectors under AGOA

In September 2005, the Corporate Council on Africa hosted meetings for the Presidents of Namibia, Sierra Leone, and Djibouti to help these countries build their connections with the U.S. private sector and to seek out new opportunities for expanding their trade with the U.S. CCA is also planning a series of trade missions to Tunisia and Libya, Mozambique and Tanzania, Botswana and Namibia, Zambia and Malawi, and Cameroon and Equatorial Guinea for the fall of 2005. While we are hopeful that these trade missions will bear fruit, the obstacles to raising U.S. investment in Africa present continuous challenges.

The U.S. Trade Representative office is to be commended as its *African Growth and Opportunity Act Competitiveness Report* addresses a number of these challenges in its technical assistance recommendations which include: developing and implementing sound government policies, improving customs procedures, enforcement and trade facilitation, improving technical standards and regulations, improving commercial law legislation and enforcement, removing trade policy barriers to intraregional trade, developing and improving transportation infrastructure, developing and improving energy and communications infrastructure, improving agricultural trade support infrastructure, improving business management skills, promoting international business linkages, collecting, analyzing, and disseminating market information, strengthening scientific capacity to facilitate economic competitiveness in agriculture, meeting global market standards, strengthening the financial sector, and facilitating access to finance.

While each of these recommendations is essential for improving the African trade and investment climate, they create a challenging working agenda for both United States and African counterparts. We can use the USTR recommendation, by deliberately promoting trade and investment opportunities currently present in Africa and engaging the individual states in the process here at home. CCA proposes greater outreach to state Chambers of Commerce, AGOA-training and education services with interested businesses and business and trade organizations, and the formation of state-specific AGOA coalitions. The specific African countries we are targeting to grow our trade relationship do not necessarily possess the resources and capacity to engage the United States at the national level. African countries can partner with us in this effort by setting up AGOA training and AGOA coalition activities in their individual countries.

The USAID Trade Competitiveness Hubs have begun working with a number of African countries to develop such initiatives. CCA will play its part in this effort by continuing the city and state outreach started in 2005. Clearly, one of our foremost challenges is to get the message out. According to the International Monetary Fund, African countries offer some of the highest returns on investment in the world. The business climate in a number of African countries is improving.

The U.S. government has demonstrated its confidence in the African commitment to undertake economic reform through granting Millennium Challenge Account eligibility to nine African countries. Two of these countries, Madagascar and Cape Verde, have successfully completed Compact Agreements with the MCC. Each of these compacts is worth US$ 110 million and will greatly assist these countries to improve conditions for trade. It is my hope that the remaining seven eligible African countries will also realize compact agreements with the MCC. African countries clearly possess significant trade and investment opportunities that are currently under-recognized by U.S. private sector companies.

Additional Trade Improvements
An additional challenge is finding more ways to invest in and grow U.S.–Africa agricultural trade. From reading the USTR *African Growth and Opportunity Act Competitiveness Report,* I am encouraged by the number of countries that have improved their agricultural exports, particularly in fruits, nuts, and floriculture. As a result of recent successes, some countries have achieved new investment in agricultural processing. The greatest sign of U.S. support will be to place our investment dollars into those sectors demonstrating exceptional growth opportunity. At the same time, it is important to remain aware of the nature of capital movement. A U.S. investor, for example, may not be readily willing to invest in a start–up operation to develop a tannery and downstream leather manufacturing facility in Botswana. As a sector in which Botswana has an identified comparative advantage, Botswana is challenged to invest in and grow the sector with or without U.S. investment. Botswana will need to take initiative and seek out its own funding and partners to develop and test the sector's capacity for production for export. Furthermore those investors currently operating in competitive sectors such as fresh cut flowers must have the business tools and economic incentives that will encourage them to maintain and grow their operations.

The U.S. government has a decisive role to play in helping African exporters comprehend and implement United States Department of Agriculture (USDA) Animal and Plant and Health

Inspection Service requirements. Continuing to meet this challenge will result in more African agricultural products gaining access to the U.S. market. Almost every eligible African country stands to benefit from such an improvement. While AGOA qualifies an extensive range of processed or value–added agricultural products for export to the U.S. market, African countries do not as yet possess the production capacity and technical preparedness to capitalize on the agricultural products exports listed under AGOA. CCA was encouraged by Agricultural Secretary Mike Johanns' and the Administration's commitment at the 2005 AGOA Ministerial Forum to develop greater U.S. technical assistance support in this vital area. We are also encouraged and thankful for USDA's support for the CCA Agricultural Task Force and hope that we can continue to work towards our goal of improving agricultural trade between the U.S. and Africa.

Summary of key challenges to be addressed by AGOA eligible African countries:

- Implement development–oriented economic and social policies to help grow infrastructure, services (telecommunications, water and sanitation, public health, transportation etc), that will in turn help to grow business and investment
- Address regional stability through support for peace-keeping operations and regional mediation in conflict resolution
- Improve regional market integration, particularly of communications and transportation networks which, currently hinder regional trade efficiencies
- Lower micro-economic costs, such as the costs associated with starting and running a business
- Address issues of corruption and lessen the role of government involvement in the private sector
- Governments and private sector companies should work on developing public-private partnerships to address key issues such as capacity building, infrastructure development, public-health awareness, and skills development and training
- Provision of small business services; training, finance, and development support that will support entrepreneurship and enhance growth

The Importance of Continued Partnership

It is imperative for us to keep the communication channels among all the key players and participants open. The Annual AGOA Forum is central to continuing that dialogue. The Private Sector Forum, in turn, is necessary to ensure that U.S. and African private sector needs are heard by public representatives. CCA co–chaired the Fourth Annual AGOA Private Sector Forum in Dakar Senegal, together with the African Business Roundtable, and the National Agency for the Promotion of Investments and Major Projects in Senegal. The Whitaker Group served as this year's Private Sector Forum Secretariat and co–chair. CCA's Board of Directors has not hesitated in the past to support our commitment to AGOA. At the same time, as this year's Private Sector Forum organizers and our fellow co–chairs will recognize, maintaining the attention of the U.S. private sector continues to present a significant challenge.

Private Sector Support

The U.S. private sector is largely results-driven. One of CCA's immediate challenges is to keep AGOA's development pertinent to its membership. A CCA member conference call following the Dakar forum raised questions of how can AGOA benefits can be made more relevant to U.S. private sector companies. Our common challenge is to address this question. As President of the largest organization representing U.S. private sector interests in Africa, I believe that U.S. private sector investment has a central role to play in growing the U.S. trade relationship with the countries of Africa.

One way that CCA as an organization is taking on this challenge is through our task forces, namely, the Task Force on Finance and Capital Flows, the Agriculture Task Force, and the HIV/Aids Task Force. We will also announce this month the formation of a Small Business Development Task Force. Through the task forces, comprised of not only CCA corporate members, but representatives from the public and intergovernmental sectors as well, we hope to extend our outreach to the private sector community and begin to engage U.S. businesses more robustly on the challenges of improving finance and capital flows to Africa. With our agricultural task force, we hope that we can elevate the importance of the agricultural trade relationship with Africa by placing our human and financial resources behind this important initiative. CCA is challenged to produce results in these areas to justify the investments of our membership. Our small business task force will attempt to link the U.S. small business sector with the development of the small business sector in Africa; for we believe that the development of small business in Africa is essential to Africa's overall economic and social development.

The Corporate Council on Africa remains committed to AGOA's continued success. To that end, we will continue to use those avenues at our disposal to raise awareness of AGOA-related opportunities. At our June 2005 U.S.–Africa Business Summit in Baltimore, roughly 14 of our 51 Summit workshops touched specifically on AGOA. CCA presented a synthesis of the key findings of these workshops to private sector participants in Dakar, Senegal. Recommendations for U.S. stakeholders include:

- continuing to support the implementation of global trade policy reform
- identifying and implementing public-private partnerships
- identifying and investing in value-added industries in Africa, including training for these industries

Recommendations for African counterparts include:

- recruiting investment and promoting trade through good governance, particularly extending governance to integrate community, national, and regional trading systems
- focusing on public-private partnerships to promote economic growth
- building more value-added industries into supply chains

CCA also authored the report on the key findings of the AGOA Private Sector on behalf of the AGOA 3 Action Committee. Our goal was to ensure continuity between the two events. We will continue to use future partnership opportunities to draw attention to these issues.

Summary of key next steps to help grow AGOA:

- Objectively assess the growth areas of AGOA and work towards helping more countries develop the capacity to better take advantage of AGOA
- Encourage greater domestic awareness of AGOA and assist U.S. FDI flows to Africa
- U.S. development assistance initiatives such as the Millennium Challenge Account can greatly assist African countries in improving the domestic conditions for private sector investment
- USTR, USAID, USTDA and related institutions and organizations can greatly enhance technical assistance levels for training and standards compliance, particularly in the agriculture sector
- The U.S. government should continue efforts to support and meet debt relief targets established through the recent G8 meetings
- Enabling African export diversification will help improve the stability of export earnings, reduce the risks surrounding investment, and deepen linkages, skills, and technological capacity, thereby boosting overall African export productivity

Conclusion

Over the coming months Congress – and the rest of us – will face some critical questions on AGOA. Third country input benefits for lesser developed countries are set to expire in September 2007. Mauritius may likely lose its third–country fabric input benefits. This is a complicated area. There are arguments that Mauritius, for example, will not be able to sustain its apparel competitiveness without the current provisions covering third–country fabric input benefits. At the same time, there is a sense that the lesser developed African countries need to graduate to a level of greater regional self-sufficiency by seeking out opportunities for local fabric and input sourcing to help ensure longer-term sustainability. A short-term solution may be to extend Mauritius' status through to 2007, allowing the country more time to develop and implement greater regional sourcing efficiencies. The reverberating message is that *diversification beyond apparel will be a central factor over the coming two years*.

Greater U.S. investment into the agriculture, finance, information and communications technology, and public health sectors can assist the progression of African countries towards export diversification. The USTR *African Growth and Opportunity Act Competitiveness Report* offers a starting point in that it identifies country-specific sectors for attention and investment. The next step is to follow through on the recommendations, encourage and support industrial feasibility and assessment analysis through key U.S. organizations such as USTDA and USAID, invest in training support, and stand in as willing partners to those African countries that have demonstrated commitment to meeting the current challenges.

Going forward, it will be important to set milestones. AGOA terms of trade build an important competitive advantage into a variety of African industries. Now that country by country advantages have been identified, the challenge is to spread the message to help ensure that capital begins to flow into these sectors. AGOA is an opportunity. It is an opportunity that the U.S. has presented to the countries of Africa to assist their integration into the U.S. and ultimately, the global market. The opportunity is not exclusive to Africa. There are real opportunities for U.S. businesses. Our common goal is communicating this message more effectively to help the mutual realization of success.

Summary concluding remarks:

- While growth in the energy sector is welcome in that it increases the amount of foreign exchange available to governments, oversight must be instituted to ensure that this growth is equitably distributed throughout the African countries benefiting from the current boom.
- For our (United States) national and global assistance to register a significant effect, we have to focus on harnessing our energies and resources to help develop African manufacturing and human resources capacity.
- CCA will play its part in addressing these challenges by working with the U.S. private and public sectors through the CCA Task Forces on Agriculture, Financing and Capital Flows, Small Business Development, and HIV/Aids
- CCA will also continue to promote the message of U.S. trade and investment opportunities in Africa by sending its staff to meet with chambers of commerce across the United States

Mr. Chairman,
Distinguished Members of the Committee:

CCA will continue to seek out opportunities to expand and grow the U.S.–Africa trade relationship. We will continue to work with our U.S. counterparts in this effort, including the MCC, USAID, and USDA, who have all been valued partners to CCA. We will also work to develop new relationships with strategic organizations such as the World Bank and the African Development Bank, and source their cooperation in helping us to keep Africa at the intersection of U.S. private sector interests. I believe that each of these efforts stand to contribute directly and indirectly to growing the AGOA trade relationship.

I thank the Honorable Chairman of the United States House Committee on International Relations and the Honorable Chairman of the subcommittee on Africa, Global Human Rights and International Operations for affording me the opportunity to address you this afternoon. Thank you all for your attention. I would be happy to answer any questions.

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